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# INVESTMENT SECTION

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for Fiscal Year ending June 30, 2007

## REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the Kentucky Teachers' Retirement System.

**Mr. Paul L. Yancey, CFA**  
Chief Investment Officer

**Mr. Philip L. Webb**  
Director of Investment Accounting

### OVERVIEW

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two Board members and the Executive Secretary. This Committee acts on behalf of the Board, subject to its approval, in all matters concerning investments. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which it reviews periodically. The investment objectives of the Board of Trustees are as follows:

1. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested solely in the interest of its members and their beneficiaries. Investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries and making payment of reasonable expenses in administering the Plan and its Trust Funds.
2. The specific objective of the investment program shall be the investment of the Fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. When investments are acquired, current income together with prospects for capital appreciation shall be weighed in regard to the long range needs of providing benefits to members and their beneficiaries. Short term fluctuations in the market value of the Fund's assets shall be considered as secondary to the long-term objectives and needs of the System.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent person rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims". The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

### INVESTMENT COMMITTEE

**MR. ROBERT M. CONLEY**  
*Chairman*

**MR. RONALD L. SANDERS**  
*Vice-Chairman*

**MR. GARY L. HARBIN, CPA**  
*Ex-Officio Member, Executive Secretary*

### EXECUTIVE INVESTMENT STAFF

**MR. GARY L. HARBIN, CPA**  
*Executive Secretary*

**MR. PAUL L. YANCEY, CFA**  
*Chief Investment Officer*

**PROFESSIONAL CONSULTANTS**

**Investment Advisors**

**Fixed Income and Equity Managers**

Todd Investment Advisors  
101 South Fifth Street  
National City Towers, Suite 3160  
Louisville, Kentucky 40202

**Fixed Income Manager**

Galliard Capital Management  
800 LaSalle Avenue  
Suite 2060  
Minneapolis, Minnesota 55502

**Equity Managers**

UBS Global Asset Management  
UBS Tower  
One North Wacker Drive  
Chicago, Illinois 60606

Wellington Management Company  
75 State Street  
Boston, Massachusetts 02109

GE Asset Management  
3001 Summer Street  
Stamford, Connecticut 06904

**Investment Consultant**

Becker, Burke Associates, Inc.  
Suite 1000  
221 North LaSalle Street  
Chicago, Illinois 60601

**Investment Custodian/Subcustodian**

Farmers Bank and Capital Trust Co.  
Farmers Bank Plaza  
Frankfort, Kentucky 40601

The Bank of New York Mellon  
One Wall Street  
New York, New York 10286

**INVESTMENT CONSULTANT'S STATEMENT**

Becker, Burke Associates served as Investment Consultant to the Kentucky Teachers' Retirement System during the 2006-07 fiscal year as it has in several previous years. Becker, Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.



Edmund M. Burke  
President  
Becker, Burke Associates  
October 16, 2007

## ASSET ALLOCATION

The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The asset allocation limits complement the investment principles used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy is adopted by the Board of Trustees and approved in the form of administrative regulation. The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability of meeting both short and long term obligations. Asset allocation parameters follow:

1. There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
2. Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.
3. Not more than 60% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. stock index.
4. Not more than 10% of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
5. Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments. Within this parameter, to further diversify the portfolio, the Board approved provisions that permit the limited ownership of foreign equities, timberland, and private equity.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2007. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2006-07 fiscal year, the market value of the stock position increased from 61% of assets the previous year to 65% of assets. The portion of the portfolio in Government securities increased from 16% to 18%. The cash position decreased during the year to 3.6% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 2.5%.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 2006-07 as the System's principal investment counselor, providing assistance in the management of \$3.3 billion of stocks and bonds. UBS Global Asset Management, Wellington Management Company, Galliard Capital Management, and GE Asset Management also were retained during the 2006-07 fiscal year to provide investment counseling services. Galliard Capital Management assisted in the management of approximately \$851 million in bonds. GE Asset Management managed about \$699 million in equity investments. UBS Global Asset

Management was responsible for managing approximately \$1.9 billion in equities, and Wellington Management Company managed about \$1.2 billion in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$7.6 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Five investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a \$15.5 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2006-07 as the Custodian of Securities with the Bank of New York Mellon serving as a sub-custodian.

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by Federal, state, and local laws.

## **FINANCIAL ENVIRONMENT**

### **Equity Market**

Stocks produced strong returns in the fiscal year ended June 30, 2007, well above historical averages. The S&P 500, dominated by large cap U.S. stocks, returned 20.6%. The S&P 400 Midcap Index returned 18.5% and the S&P 600 Smallcap Index returned 16.0%. International equities were strong as well, with the EAFE Index returning 27.5%. The march upward in prices was notable for its steadiness, or unusually low volatility, interrupted only by a minor correction in late February and increasing volatility in June, 2007.

The markets flourished in an environment that was decidedly shareholder-friendly. After several years of healthy economic growth, most companies were flush with cash and had strong balance sheets. Companies' focus turned to raising dividends, buying back shares, and leveraging in other ways to boost return on equity. The period also saw the peak of a boom in leveraged buyouts by private equity firms. Fueled by an abundance of cheap credit with permissive terms, private equity firms acquired numerous publicly traded companies at substantial premiums to their pre-announcement public market prices. This trend only began to abate in the summer of 2007 as credit availability suddenly became much more restrictive.

This ebullient market environment played out against the backdrop of U.S. economic growth that was clearly moderating due to gradually weakening consumer spending and a severely slumping housing sector. Global growth remained strong, supporting the manufacturing sector. Gross domestic product, adjusted for inflation, grew 1.8% over the fiscal year, down from 3.2% growth over the previous twelve months. Year-over-year retail sales growth was 3.5% in June, 2007, down from 5.4% a year earlier. Adjusting for inflation, real retail sales growth was only 0.8%, down from 1.1% in June, 2006. Industrial production declined from 4.3% year-over-year growth to 1.5%. Inflation, as measured by the consumer price index, declined from 4.3% to 2.7%. Employment growth held up, with the unemployment rate falling from 4.6% to 4.5%. Housing was a major drag on the economy, with existing home sales in June, 2007 down 12.1% from a year earlier and the inventory of unsold homes at an 8.7 month supply, up from 6.8 months a year ago.

The strongest industry sectors over the fiscal year were telecommunications (+34.3%), materials

(+26.5%), and energy (+26.0%). The telecommunications sector was driven by a strong return by AT&T in the wake of its acquisition of Bellsouth. The materials sector benefited from a boom in commodity prices due to strong global demand from China and other emerging markets. Energy benefited from sustained high oil prices. Even the weakest relative sectors produced solid returns: financials (+11.8%), consumer staples (+12.2%), and industrials (+15.0%).

After several years of strong outperformance by mid cap and small cap stocks, large cap stocks outperformed modestly for the fiscal year. Lower relative valuations on large cap stocks augured well for continued outperformance. Among large cap and mid cap stocks, the "value" style of investing outperformed the "growth" style due to the strong performance of telecommunications, materials, and energy, which are considered value sectors. The large cap Russell 1000 Value Index returned 21.9% for the fiscal year versus 19.0% for the Russell 1000 Growth Index. Among small cap stocks the story was slightly different, with the Russell 2000 Growth Index returning 16.8% versus 16.1% for the Russell 2000 Value Index.

As the fiscal year came to an end, problems in the subprime mortgage market were causing widening financial market turmoil. A few years of excessively lax lending standards were coming to fruition with rising default rates on lower quality mortgages. There were failures among heavily leveraged hedge funds that had invested in such mortgages. A number of mortgage originators were forced out of business. A general increase in risk aversion tightened credit and raised interest rate risk spreads throughout the credit markets. The stock market responded with a sharp upsurge in volatility. The S&P 500 suffered a 10% correction in the summer of 2007. Tighter lending standards threatened to extend the housing slump indefinitely. The important question was how much the market turmoil and housing market slump would impact the wider economy going forward.

### **Fixed Income Market**

Bonds generated relatively good inflation-adjusted returns in the fiscal year ended June 30, 2007. The Lehman Government/Credit Index returned 6.0% versus consumer price index inflation of 2.7% for a 3.3% real return. The Federal Reserve completed a tightening cycle in late June, 2006, leaving the short-term federal funds rate steady at 5.25% throughout the fiscal year. Longer-term rates fluctuated, but remained below short-term rates for most of the fiscal year. With default rates very low and balance sheets generally strong, yield spreads over safe government bonds remained historically thin over most of the period. This began to change in June, 2007, as contagion from the subprime mortgage market caused a general increase in risk aversion.

Long maturity bonds and lower credit quality bonds outperformed for the fiscal year as a whole. The Lehman 20+ year Treasury Bond Index returned 5.93%. Three-month Treasury bills, with no credit risk or price volatility, returned 5.24%. The Lehman Long Corporate Index returned 7.87% and the Lehman U.S. Corporate High Yield Index returned 11.55%. The Lehman Index of Fixed Rate Mortgage-Backed Securities returned a respectable 6.39%.

The Federal Reserve ended its tightening campaign in late June, 2006, acknowledging a softening economy. The market immediately began anticipating cuts in short-term rates in the foreseeable future. Yields across the Treasury maturity spectrum generally declined in the second half of 2006. The yield on the ten-year Treasury declined from 5.14% on June 30, 2006 to a low point of 4.43% on December 4. Despite below-trend economic growth and a worsening housing downturn, the Federal Reserve continued to signal that its primary concern was combating inflationary pressures and gave no hint of near-term easing. Yields settled into a trading range.

Yields then had a significant revaluation upward in May and June, 2007 due to a change in short-term and long-term sentiment. With regard to short-term sentiment, the market finally threw in the towel on the prospect of Federal Reserve easing in the near future. With regard to long-term sentiment, there was a wave of articles in the press suggesting that the global inflow of funds which had been depressing U.S. Treasury yields was in danger of abating. The focus shifted to concerns that strong global growth and tight capacity were causing global inflationary pressures. The yield on the ten-year Treasury moved up from 4.63% on April 30 to 5.30% on June 12.

The climate changed again suddenly in the summer of 2007 as widening effects of the subprime mortgage crisis caused the most serious credit market disruption since 1998. A "flight to quality" caused prices to rise and yields to drop sharply on U.S. Treasury securities. Yield spreads over Treasury bonds widened dramatically in all fixed income sectors and lending terms became more restrictive. Availability of short-term credit in the money markets was even threatened until the Federal Reserve stepped in to stabilize the situation by supplying credit to financial institutions through its discount window. A strong possibility of the Federal Reserve lowering the federal funds rate from 5.25% in the near future was back on the table. The timing and extent of any such monetary policy easing would depend upon the impact of the continued housing slump and the financial market turmoil on the broader economy. Hopefully, wider yield premiums for risky assets represented a healthy repricing of risk after years of excessively cheap and easy credit. A more pessimistic view would interpret the shift as a harbinger of economic weakness, rising default rates, and increased volatility in the credit markets.

## PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolios, exclusive of the stock index fund and the international portfolio, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 1.03. The KTRS portfolio registered a price-earnings multiple that was slightly lower than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 17.03, compared to 17.46 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 22.19%. The average dividend growth rate for the past five years of the KTRS portfolio was 14.20%. At the end of the 2006-07 fiscal year, the yield level for the KTRS portfolio stood at 1.63%, which was lower than the index's yield of 1.81%.

The stock position, apart from the stock index fund and the international portfolio, began the 2006-07 fiscal year by being 31.9% of assets at market value, and by year-end, it constituted 32.9% of assets. In dollars, the value of the stock position increased from approximately \$4.4 billion to about \$5.1 billion in 2006-07. The three stock index funds represented another \$4.0 billion that was invested in stocks at year end, while \$1.0 billion was invested in international portfolios. At the end of 2006-07, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer staples, financials, and material sectors and overweightings in the consumer discretionary, health care, and information technology sectors.

On June 30, 2007, the System's entire bond portfolio had a duration of 5.3 years. The average coupon rate for the holdings was 5.5%. As of June 30, 2007, the average maturity of the fixed

income portfolio was 7.9 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 71% of the fixed income investments, including short term cash equivalents, will mature by the end of 2019, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

## PORTFOLIO RETURNS

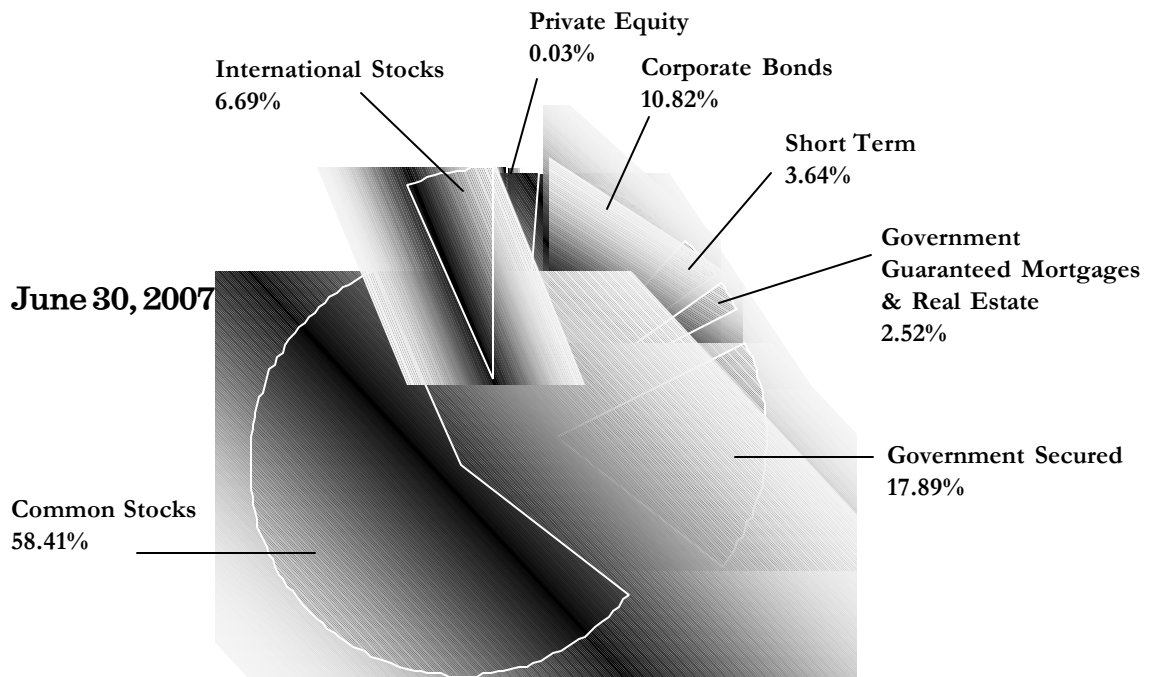
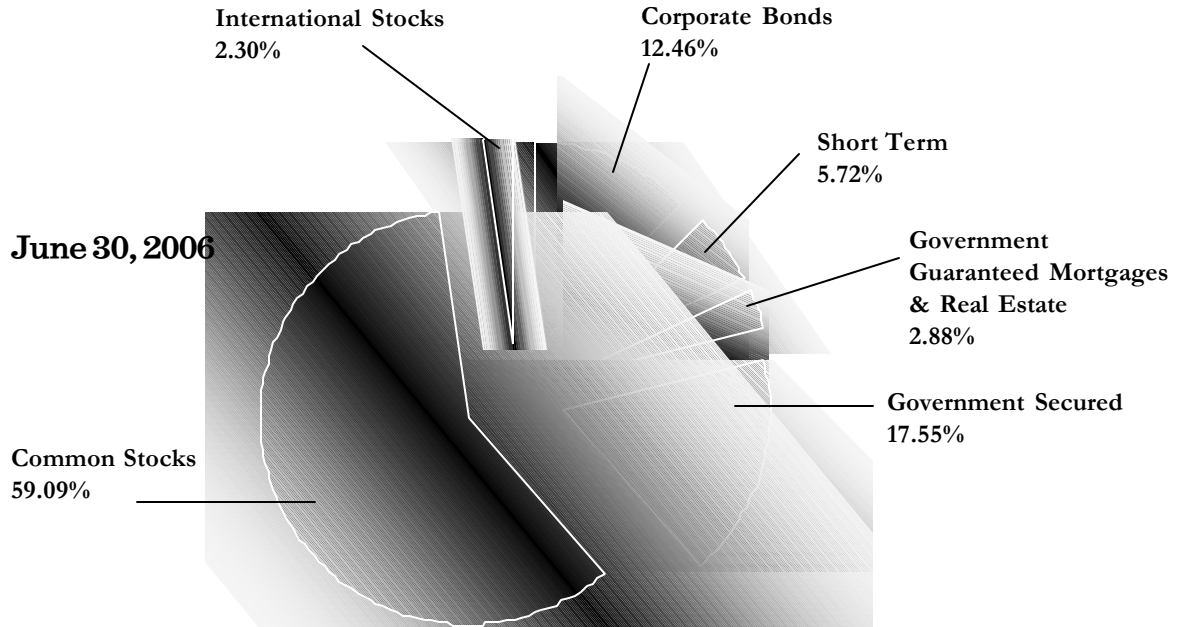
The investment portfolio experienced growth in book values and its market value during the 2006-07 year. The market value of the portfolio increased over \$1.6 billion to a total of \$15.5 billion at year-end. The book value of the fund increased \$425.9 million during the year. The System accumulated in excess of \$855 million of investment income during 2006-07; this investment income total excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains.

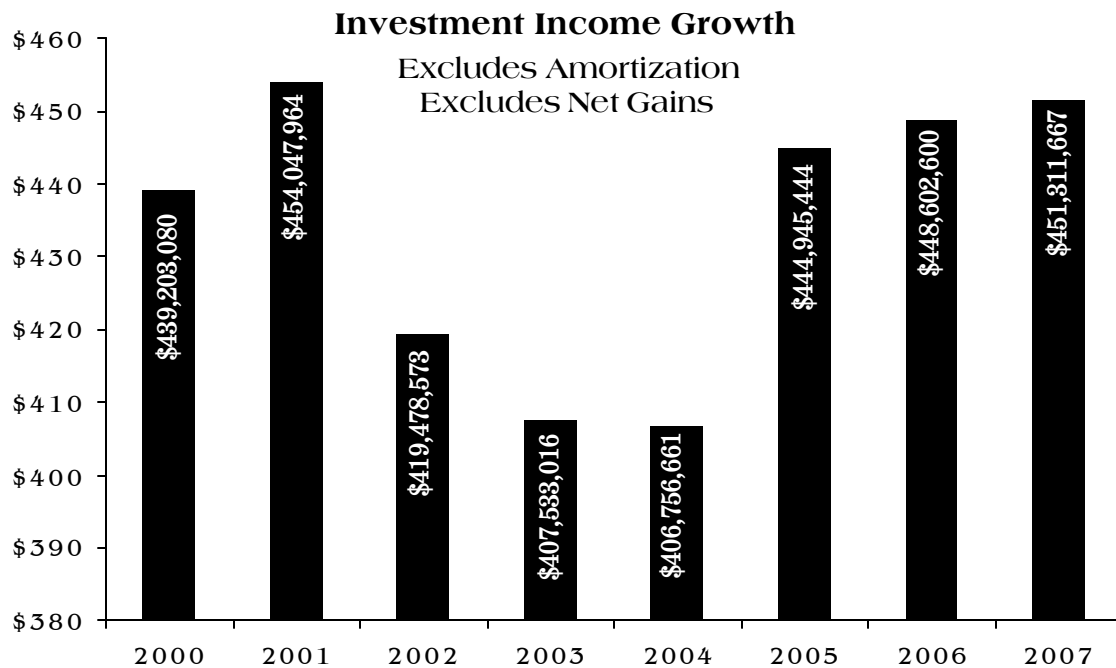
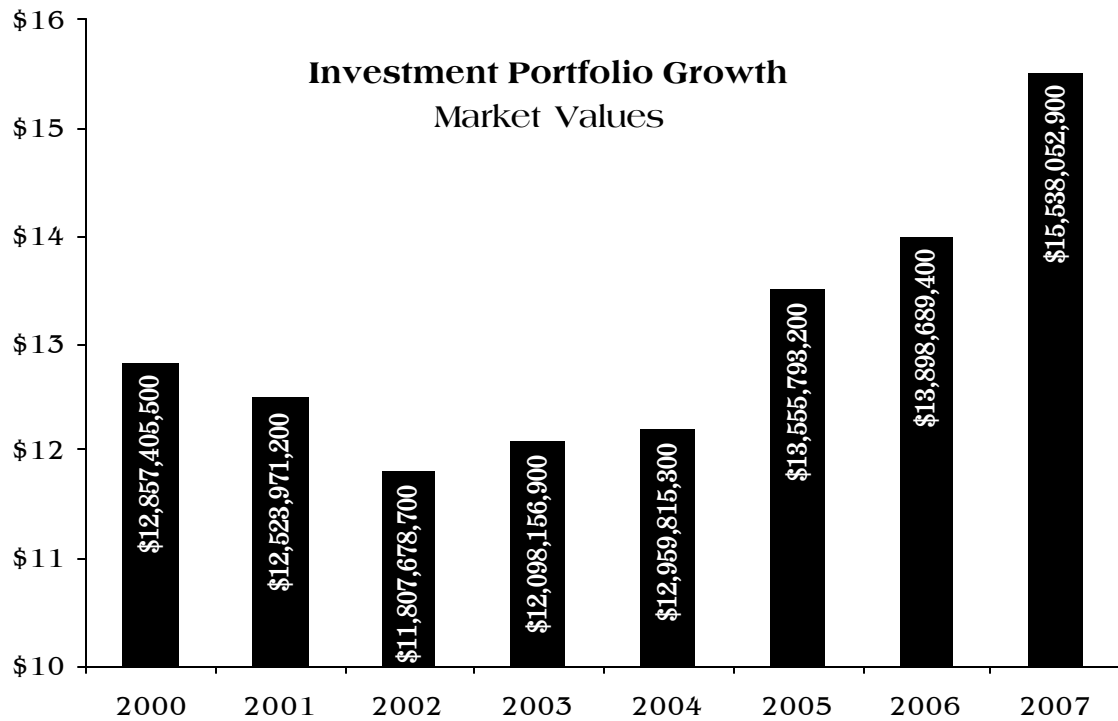
For the 2006-07 fiscal year, the total return earned by the System's stock position is equal to the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position and the stock index earned a total return of 20.6% in 2006-07. The ten year annualized return for the years 1998 through 2007 was 7.8% for the System's stock position and 7.1% for the stock index. The System's bond position earned a ten year annualized total return of 6.2%. This is slightly higher than the 6.0% return earned by the Lehman Government/Credit High Quality Index. In 2006-07, the System's bonds earned a total return of 6.3%, while the Lehman High Quality Index earned 5.7%. The entire portfolio earned a total return of 15.3% in 2006-07. The portfolio's ten year annualized rate of total return was 7.1%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2006-07, the Consumer Price Index registered an inflation rate of 2.7%. The ten year annualized rate is 2.7%. The System's returns were generated by the Rogers Casey performance reporting system using a time-weighted rate of return calculation based upon the modified Dietz methodology.

The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2007. The System annually produces a detailed investment report that is available on request.



## Distribution of Investments Market Values





**Total Return on KTRS Investments\*  
Percentages**

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Govt./Credit High Quality Index	KTRS Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
1997-98	30.2	29.2	11.3	11.6	1.7	6.1	9.7	19.4
1998-99	22.8	22.0	2.7	2.3	2.0	5.3	9.7	11.5
1999-00	7.3	3.6	4.6	4.9	3.7	5.8	9.9	4.1
2000-01	(14.8)	(8.9)	11.0	10.9	3.3	6.0	9.5	(0.7)
2001-02	(18.0)	(14.5)	8.6	9.5	1.1	2.5	6.0	(4.1)
2002-03	0.3	(1.1)	12.3	12.4	2.1	1.5	9.3	4.8
2003-04	19.1	19.2	(1.2)	(0.7)	3.2	1.0	9.7	9.7
2004-05	6.3	7.9	7.0	7.6	2.5	2.3	9.6	7.5
2005-06	8.6	9.0	(1.4)	(1.2)	4.3	5.0	11.3	5.4
2006-07	20.6	20.6	5.7	6.3	2.7	7.2	8.2	15.3
Three Year Annualized Rate	11.7	12.1	3.7	4.2	3.2	4.8	9.7	9.3
Five Year Annualized Rate	10.7	10.7	4.4	4.7	3.0	3.4	9.6	8.5
Eight Year Annualized Rate	2.8	3.8	5.7	6.1	2.9	3.9	9.2	5.1
Ten Year Annualized Rate	7.1	7.8	6.0	6.2	2.7	4.2	9.3	7.1
Fifteen Year Annualized Rate	11.2	11.5	6.3	6.6	2.7	4.5	9.3	8.8
Twenty Year Annualized Rate	10.8	11.2	--	7.5	3.1	5.4	9.0	9.1

\* The performance calculations presented above were generated by the Rogers Casey Performance reporting system using a time-weighted rate of return calculation based upon the Dietz methodology.

**Investment Summary  
Fair Market Value  
06/30/2007**

Type of Investment	Fair Value 07/01/06	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/07
Short Term	794,300,000	41,636,178,100	11,320,700	41,875,340,900	566,457,900
Fixed Income	4,185,201,900	1,936,149,600	28,178,800	1,679,323,300	4,470,207,000
Equities	8,919,187,500	3,189,246,800	1,577,837,400	3,189,957,900	10,496,313,800
Alternative	-	5,666,000	100	591,900	5,074,200
<b>TOTAL</b>	<b>13,898,689,400</b>	<b>46,767,240,500</b>	<b>1,617,337,000</b>	<b>46,745,214,000</b>	<b>15,538,052,900</b>

**Contracted Investment Management Expenses  
(\$ Thousands) as of 06/30/2007**

	Assets Under Management	Expenses	Basis Points (1)
<b>INVESTMENT MANAGER FEES</b>			
Fixed Income Managers	\$ 850,880	\$ 382	4.5
Equity Managers	3,833,887	6,186	16.1
Balanced Manager	3,273,551	1,285	3.9
<b>TOTALS</b>	<b>\$ 7,958,318</b>	<b>\$ 7,853</b>	<b>9.9</b>
<b>OTHER INVESTMENT SERVICES</b>			
Custodian Services	\$ 15,538,053	\$ 517	0.3
Private Equity Fees (2)	5,074	317	624.8
Investment Consultant		65	
<b>TOTAL</b>		<b>\$ 899</b>	
<b>GRAND TOTAL</b>		<b>\$ 8,752</b>	<b>5.6</b>

1 - One basis point is one hundredth of one percent or the equivalent of .0001.

2 - Private equity fees apply to Calendar Year 2007.

# Transaction Commissions

06/30/2007

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A.G. Edwards	19,600	784.00	0.0400
B Trade Services	16,023	80.12	0.0050
Bank of America	2,748,459	68,634.40	0.0250
Bass Trading	10,000	400.00	0.0400
BB & T Capital Markets	42,400	1,696.00	0.0400
Bear Stearns & Co., Inc.	494,225	29,475.50	0.0596
BMO Capital Markets	18,400	1,840.00	0.1000
BNY Brokerage	1,571,567	62,862.68	0.0400
Boenning & Scattergood	127,020	2,857.95	0.0225
Cantor Fitzgerald & Co	50,000	2,000.00	0.0400
CIBC Oppenheimer Worldmarket	72,000	2,560.00	0.0356
Citigroup Global	2,129,820	125,907.08	0.0591
Citigroup-Huntington	3,047,800	121,912.00	0.0400
Citigroup-Louisville	2,830,600	113,224.00	0.0400
Cowen & Co	32,600	1,304.00	0.0400
Credit Suisse Sec. LLC	3,769,800	176,693.40	0.0469
Deutsche Bank	4,413,849	215,832.75	0.0489
First Kentucky Securities Corp	2,231,325	89,253.00	0.0400
Fox Pitt Kelton Inc	12,100	484.00	0.0400
Freidman Billings	154,300	5,858.00	0.0380
Goldman Sachs	4,789,175	208,864.08	0.0436
Heflin & Co	173,600	6,944.00	0.0400
Howe Barnes Investment	18,800	752.00	0.0400
Instinet	27,100	274.75	0.0101
Investment Tech Grp Transition	25,353,182	134,675.02	0.0053
Investment Technology Grp	28,655,518	456,882.44	0.0159
ISI Group	2,779,203	111,168.12	0.0400
J.J.B. Hilliard, W.L. Lyons	2,942,500	117,700.00	0.0400
Jefferies & Co.	2,647,700	96,195.15	0.0363
JMP Securities	14,000	560.00	0.0400
Jones & Associates	49,700	1,988.00	0.0400
JP Morgan & Chase	25,100	1,227.00	0.0489
Keefe Bruyette & Woods	17,500	700.00	0.0400
Knight Equity Markets	124,079	4,782.53	0.0385
Lazard Freres & Co.	4,630,300	185,212.00	0.0400
Leerink Swann & Co.	6,900	276.00	0.0400
Lehman Brothers	3,095,640	100,448.50	0.0324
Lexington Investment Co.	1,690,900	67,636.00	0.0400
Liquidnet Inc	2,356,437	47,128.74	0.0200
Merrill Lynch	19,122,937	402,172.81	0.0210
MKM Partners	63,000	2,520.00	0.0400
Morgan Keegan	2,257,300	90,292.00	0.0400
Morgan Stanley	7,115,677	265,959.27	0.0374
Murphy & Durieu	27,400	616.50	0.0225

Year Ended June 30, 2007

*Transaction Commissions continued . . .*

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
NYFIX Transaction Service	300	1.50	0.0050
Pipeline Trading	10,500	157.50	0.0150
Piper Jaffray	30,800	4,080.00	0.1325
Prudential Sec	34,000	1,571.00	0.0462
Pulse Trading	63,930	1,438.43	0.0225
R W Baird	13,500	540.00	0.0400
Raymond James & Assoc	4,936,461	197,458.44	0.0400
RBC Capital Markets	23,400	1,035.00	0.0442
Ross Sinclair & Assoc	1,642,600	65,704.00	0.0400
Sandler O'Neill	35,600	1,424.00	0.0400
Sanford C Bernstein	85,900	429.50	0.0050
State Street Global	51,000	1,530.00	0.0300
Stifel, Nicolaus & Co	2,162,900	86,516.00	0.0400
Suntrust Robinson	2,400	85.00	0.0354
Susquehanna Brokerage	58,300	1,695.75	0.0291
Thomas Weisel Partners	16,831	1,642.69	0.0976
UBS/Paine Webber Securities	1,818,652	85,923.12	0.0472
UBS/Paine Webber-Louisville	5,288,600	211,544.00	0.0400
Wachovia / First Clearing Corp	2,990,850	119,594.00	0.0400
Weeden & Co	3,207,340	128,426.10	0.0400
<b>TOTAL</b>	<b>154,249,400</b>	<b>4,239,429.82</b>	<b>0.0275</b>

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be \$.04 per share. The acquisition of initial public offerings (IPOs) represented a portion of small capitalization stock purchases. IPOs usually have a high commission rate. However, the security issuers and not the investors pay the commissions. In 2006-07, the System bought small capitalization IPOs that generated \$67,324.93 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of \$4,239,429.82. Typical stock transactions occur at lower commission rates than IPO transactions, frequently \$.04 per share or less. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through Lynch Jones Ryan, Merrill Lynch and Lehman Brothers. Trading commissions of \$62,799.00 were associated with third party research obligations. The primary research providers were: Bloomberg, Interactive Data, Rogers Casey, CMS Bondedge, ISS, QED Information Systems, and Vestek.

**Ten Largest Stock Holdings Ranked\*  
by Market Value  
06/30/07**

<u>Rank</u>	<u>Name</u>	<u>Shares</u>	<u>Market Value</u>
1	General Electric	5,002,074	191,479,393
2	Microsoft	6,420,997	189,226,782
3	Citigroup Inc	3,425,912	175,715,026
4	Exxon Mobil Corp	1,871,500	156,981,420
5	A T & T Inc	3,557,201	147,623,842
6	Bank of America	2,535,700	123,970,373
7	Cisco Systems Inc	4,229,546	117,792,856
8	Morgan Stanley	1,384,522	116,133,705
9	Wells Fargo & Co	3,269,350	114,983,040
10	Chevron Corp	1,358,167	114,411,988

**Top Ten Fixed Income Holdings\*  
06/30/07**

<u>Rank</u>	<u>Description</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Par</u>	<u>Market Value</u>
1	US Treasury Bonds	8/15/2023	6.250	110,500,000.00	122,698,095.00
2	US Treasury Bonds	2/15/2021	7.875	46,500,000.00	58,513,740.00
3	US Treasury Notes	5/15/2015	4.125	59,500,000.00	56,073,990.00
4	US Treasury Bonds	8/15/2029	6.125	47,325,000.00	53,085,399.00
5	FHLB	9/4/2007	5.200	50,000,000.00	49,984,500.00
6	FHLB	4/3/2008	5.250	50,000,000.00	49,937,500.00
7	FHLB	4/9/2008	5.200	50,000,000.00	49,937,500.00
8	FHLB	2/4/2008	5.150	50,000,000.00	49,906,500.00
9	US Treasury Bonds	8/15/2021	8.125	29,815,000.00	38,426,466.45
10	Federal Home Loan Bank Bonds	10/16/2007	5.200	38,000,000.00	37,976,440.00

*\* Detailed information concerning these values along with book values and cost values of all KTRS investments is available upon request.*

KENTUCKY TEACHERS' RETIREMENT SYSTEM

**Schedule of Investments  
as of June 30, 2007**

Investment	Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value	
Cash Equivalents	567,500,000.00	566,457,884.77	3.65	
Total Short Term	567,500,000.00	566,457,884.77	3.65	
Treasury Notes and Bonds	992,170,000.00	1,051,762,064.23	6.77	
Agencies	1,299,414,235.71	1,286,289,341.11	8.28	
GNMA (Single Family)	26,130,984.38	26,143,119.20	0.17	
Collateralized Mortgage Obligations	144,824,550.75	141,712,059.24	0.91	
Treasury Strip Bonds	25,000,000.00	20,935,810.00	0.13	
Total U.S. Government Obligations	2,487,539,770.84	2,526,842,393.78	16.26	
Industrials	470,292,581.00	474,857,147.60	3.06	
Finance	1,045,027,447.18	1,034,761,668.06	6.66	
Utility Bonds (Except Telephone)	130,983,320.00	130,574,787.92	0.84	
Telephone Bonds	39,287,200.00	40,739,638.80	0.26	
Total Corporate Bonds	1,685,590,548.18	1,680,933,242.38	10.82	
Project Mortgages (FHA & GNMA)	9,445,982.30	10,094,637.90	0.06	
State and Local Government Issues	255,076,106.93	252,336,752.90	1.63	
Total Other Fixed Income	264,522,089.23	262,431,390.80	1.69	
Subtotal (Fixed Income)	5,005,152,408.25	5,036,664,911.73	32.42	
Real Estate Equity	377,513,923.33	381,693,796.00	2.45	
Total Real Estate Equity	377,513,923.33	381,693,796.00	2.45	
Crysalis Venture	2,600,000.00	2,600,000.00	0.02	
KKR Private Equity	2,474,147.00	2,474,147.00	0.01	
Total Private Equity	5,074,147.00	5,074,147.00	0.03	
UBSAlpha	9,310,640.20 Units	100,000,000.00	124,666,679.09	0.80
UBS Intl Collective	800,269.69 Units	450,000,000.00	522,413,572.80	3.36
International	15,041,017.00 Shares	431,139,807.64	517,002,575.06	3.33
Common Stocks	88,605,347.00 Shares	3,227,228,989.43	3,961,339,456.05	25.50
Small Cap Stocks	7,289,282.00 Shares	138,751,022.40	164,687,425.92	1.06
Wellington Large	14,239,728.00 Shares	675,580,846.91	744,880,496.31	4.79
600 Stock Index	9,887,648.00 Shares	233,961,647.73	295,565,411.05	1.90
400 Stock Index	7,244,437.00 Shares	233,707,710.24	252,238,791.87	1.62
Todd Alpha	1,209,400.00 Shares	50,711,464.28	55,166,653.00	0.36
Stock Index	78,818,635.00 Shares	2,664,900,111.67	3,476,658,952.60	22.38
Total Stocks	232,446,403.89 Shares	8,205,981,600.30	10,114,620,013.75	65.10
Subtotal (Equity)	8,588,569,670.63	10,501,387,956.75	67.58	
Total Investments	13,593,722,078.88	15,538,052,868.48	100.00	

\* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 2007. Detailed information concerning these values along with book value and cost values of all KTRS investments is available on request.